

## Message Text

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ACTION MMO-02

INFO OCT-01 ARA-10 EUR-12 ISO-00 AID-05 CIAE-00  
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FM AMEMBASSY BRIDGETOWN  
TO SECSTATE WASHDC 4873  
INFO AMEMBASSY LONDON

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E.O. 11652: GDS  
TAGS: ECON, EFIN, EGEN, BB, EIND, EINV, ECRP  
SUBJECT: ECONOMIC TRENDS, BALANCE OF PAYMENTS AND BUDGETARY  
SITUATION, BARBADOS - CERP 0102, CERP 0200

REF: BRIDGETOWN 0273

BEGIN UNCLASSIFIED

BEGIN SUMMARY: ON FEBRUARY 27, GOVERNOR OF THE CENTRAL  
BANK OF BARBADOS COURTNEY BLACKMAN HELD A PRESS CONFERENCE  
DURING WHICH HE PRESENTED A TOUR D'HORIZON RESPECTING THE  
BARBADIAN ECONOMY. ON MARCH 2, THE EMBASSY'S ECONOMIC  
OFFICER HAD A LENGTHY CONVERSATION WITH WINSTON COX, DIRECTOR  
OF RESEARCH OF THE CENTRAL BANK OF BARBADOS, CONCERNING THE  
SAME SUBJECT. MR. COX AMPLIFIED AND ENLARGED UPON INFORMA-  
TION CONVEYED BY DR. BLACKMAN. IF WE PIECE TOGETHER WHAT  
WAS LEARNED, THE ECONOMIC PICTURE PRESENTED BELOW EMERGES.  
REVIEWING THE ECONOMY IN 1977, PERHAPS THE MOST ACCURATE  
WAY TO CATEGORIZE IT IS TO SAY THAT LAST YEAR WAS THE SECOND  
SUCCESSIVE YEAR OF EXPANSION, BUT A LITTLE MORE MODEST  
EXPANSION THAN IN 1976. THE GROWTH IN REAL GROSS DOMESTIC  
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PRODUCT WAS THREE PERCENT IN 1977, IN COMPARISON WITH FIVE  
PERCENT DURING 1976. PRICE INFLATION WAS A LITTLE HIGHER  
(EIGHT PERCENT COMPARED TO FIVE PERCENT). THE ABOVE STA-  
TISTICS COMPARE FAVORABLY WITH THE ZERO GROWTH AND DOUBLE  
DIGIT INFLATION OF 1974 AND 1975. HOWEVER, BALANCE  
OF PAYMENTS (BOP) PROBLEMS PERSISTED, AND THE GOVERNMENT'S  
BUDGET WENT FURTHER INTO DEFICIT. END SUMMARY

1. THERE WERE SIGNIFICANT INCREASES IN SUGAR PRODUCTION AND TOURIST ARRIVALS IN 1977, THE PRINCIPAL SOURCES OF FOREIGN EXCHANGE EARNINGS OF BARBADOS. SUGAR BENEFITED FROM FAVORABLE RAINFALL IN 1976 AND MORE RECENT IMPROVEMENTS IN HARVESTING PRACTICES. TOTAL SUGAR PRODUCTION WAS ABOUT 117,000 LONG TONS IN 1977, AN INCREASE FROM 102,000 IN 1976. TOURISM HAS RECOVERED AS THE U.S. ECONOMY CONTINUED ITS UPSWING FROM THE 1973-75 RECESSION. IN ADDITION, ARRIVALS IN 1977 BENEFITED FROM THE SEVERE 1976-77 WINTER IN NORTH AMERICA. NON-CRUISE SHIP TOURIST ARRIVALS WERE ESTIMATED AT 260,000 IN 1977, UP FROM 224,000 IN THE PREVIOUS YEAR. HIGH LEVELS OF ACTIVITY WERE RECORDED IN THE CONSTRUCTION SECTOR; PUBLIC WORKS AT THE BRIDGETOWN HARBOR, THE AIRPORT AND MAJOR SCHOOL EXPANSIONS WERE THE PRINCIPAL FACTORS. MUCH SMALLER OUTPUT INCREASES WERE REGISTERED IN MANUFACTURING, FOR WHICH THE INDEX INCREASED A LITTLE OVER ONE PERCENT. PRODUCTION OF FOOD CROPS REMAINED AT ABOUT THE 1976 LEVEL.

2. THE PERFORMANCE OF SUGAR, EXPORT MANUFACTURING AND TOURISM HALPED TO KEEP THE COUNTRY'S BOP DEFICIT BELOW THE PREVIOUS YEAR'S RECORD LEVEL, BUT THE 1977 DEFICIT WAS HIGHER THAN FOR ANY YEAR PRIOR TO 1976. LOW UNIT PRICES FOR SUGAR MEANT THAT FOREIGN EXCHANGE RECEIPTS FROM THIS COMMODITY ROSE ONLY SLGITHLY, DESPITE THE INCREASE IN VOLUME. LIMITED OFFICIAL USE

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THERE WAS A SUBSTANTIAL INCREASE IN EXPORT MANUFACTURING, AND IMPORT AND CREDIT RESTRICTIONS HELPED TO CONTAIN THE GROWTH OF CONSUMER IMPORTS. HOWEVER, THERE WERE SUBSTANTIAL INCREASES IN IMPORTS OF INTERMEDIATE GOODS, LARGELY AS A RESULT OF THE HIGH IMPORT CONTENT OF TOURIST, EXPORT AND BUILDING EXPENDITURES. FUEL IMPORTS ALSO INCREASED SIGNIFICANTLY, PARTLY BY REASON OF THE INCREASE IN ELECTRICITY CONSUMPTION. GOVERNMENT EXPENDITURES ON INFRASTRUCTURAL PROJECTS WERE ACCOMPANIED BY A RISE IN THE IMPORTATION OF CAPITAL GOODS.

3. MONETARY POLICY WAS INTENDED TO STIMULATE EXPORTS AND TO REDUCE FOREIGN PAYMENTS TO A LEVEL WHICH COULD BE SUPPORTED BY FOREIGN EXCHANGE INFLOWS. THE FIRST MOVE TO TIGHTEN CREDIT CAME IN FEBRUARY. LIMITS WERE PLACED ON SELECTED ITEMS OF CONSUMER CREDIT BY COMMERCIAL BANKS, AND MINIMUM DOWN-PAYMENTS AND MAXIMUM MATURITIES WERE SPECIFIED ON ALL CONSUMER INSTALLMENT CREDIT UNDER NEW HIRE PURCHASE LEGISLATION. WHEN WEAKNESS IN THE BALANCE OF PAYMENTS PERSISTED AFTER THE FIRST HALF OF THE YEAR, COMMERCIAL BANKS WERE INSTRUCTED TO MAINTAIN OUTSTANDING CREDIT TO THE PERSONAL AND DISTRIBUTIVE SECTORS AT THE LEVELS OF JUNE 30.

IN AUGUST, RESERVE REQUIREMENTS WERE RAISED 2 PERCENT TO 20 PERCENT OF LOCAL DEPOSIT LIABILITIES, A MEASURE WHICH VIRTUALLY ELIMINATED EXCESS LOANABLE FUNDS OF COMMERCIAL BANKS. (THE EXISTING RESERVE REQUIREMENT STILL REMAIN 20 PERCENT OF DEPOSIT LIABILITIES.) HOWEVER, IN AUGUST AND THEREAFTER THE CENTRAL BANK MADE FUNDS AVAILABLE AT DISCOUNT TO ANY BANK PREPARED TO LEND TO THE MANUFACTURING, AGRICULTURAL, OR TOURIST SECTOR. IN SEPTEMBER, MINIMUM DOWN-PAYMENTS ON INSTALMENT CREDIT WERE RAISED, AND PERMISSIBLE MATURITIES SHORTENED.

4. THE DEFICIT IN THE BALANCE OF TRADE IN 1977 WAS ABOUT \$179.0 MILLION, UP FROM \$150.0 MILLION IN 1976. (ALL \$ FIGURES HEREIN ARE IN US DOLLARS. ONE US DOLLAR EQUALS ABOUT TWO BARBADOS DOLLARS). FUEL IMPORTS AMOUNTED TO \$23.5 LIMITED OFFICIAL USE

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MILLION, COMPARED WITH \$20.0 MILLION IN THE PREVIOUS YEAR.

5. THE OVERALL FISCAL POSITION OF THE GOVERNMENT WAS WEAK. THE CURRENT ACCOUNT DEFICIT NARROWED, BUT EXTENSIVE PUBLIC WORK PROJECTS RAISED CAPITAL EXPENDITURES SIGNIFICANTLY. IN ADDITION, GOVERNMENT PURCHASING AND REFINANCING OF LARGE-SCALE PRIVATE ENTERPRISES ACCOUNTED FOR MORE THAN 13

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ACTION MMO-02

INFO OCT-01 ARA-10 EUR-12 ISO-00 AID-05 CIAE-00  
COME-00 EB-08 FRB-03 INR-10 NSAE-00 USIA-06  
TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01  
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FM AMEMBASSY BRIDGETOWN  
TO SECSTATE WASHDC 4874  
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PERCENT OF CAPITAL EXPENDITURE. THE BURDEN OF AMORTIZATION OF FOREIGN LOANS WAS PARTICULARLY HEAVY, ABSORBING 74 PERCENT OF GROSS FOREIGN CAPITAL INFLOWS TO THE PUBLIC SECTOR. AS A RESULT, THE CENTRAL BANK WAS REQUIRED TO INCREASE ITS HOLDINGS OF GOVERNMENT DEBT BY \$27.2 MILLION.

6. REGARDING PROSPECTS FOR 1978, THERE IS LITTLE REASON AT PRESENT TO EXPECT THAT REAL ECONOMIC GROWTH WILL SIGNIFICANTLY EXCEED THE RATE OF 1977. SUGAR PRODUCTION WILL PROBABLY FALL BELOW THE 1977 LEVEL. TOURISM MAY DO AS WELL AGAIN AS IT DID IN 1977, WHEN ARRIVALS INCREASED 18 PERCENT; BUT IT IS PERHAPS ASKING TOO MUCH TO EXPECT A SECOND INCREASE OF SUCH MAGNITUDE. OUTPUT OF THE MANUFACTURING SECTOR SHOULD INCREASE AS THE FACTORIES THAT STARTED OPERATIONS IN 1977 RECORD THEIR FIRST FULL YEAR OF WORK, BUT THE RATE OF NEW INVESTMENT APPEARS TO HAVE SLOWED SOMEWHAT. CONSTRUCTION ACTIVITY WILL PROBABLY INCREASE VERY LITTLE. THE PROSPECTS FOR THESE LEADING SECTORS SUGGEST A RATE OF GROWTH OF AROUND THE SAME MAGNITUDE AS IN 1977. THIS MODEST RATE OF EXPANSION WILL LIMIT GOVERNMENT REVENUES, WHICH ARE LIMITED OFFICIAL USE

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EXPECTED TO RISE BY ONLY SIX PERCENT. IN THE LAST TWO YEARS GOVERNMENT EXPENDITURE HAS RAPIDLY OUT-PACED REVENUE, AND THIS PATTERN IS EXPECTED TO CONTINUE. GOVERNMENT EXPENDITURES ARE PROJECTED TO RISE IN 1978 BY ALMOST 13 PERCENT.

7. FINANCE TO GOVERNMENT ON THIS SCALE POSES PROBLEMS TO A SYSTEM WHICH HAS ALREADY SEEN SIGNIFICANT GOVERNMENT BORROWING IN 1977. AN INCREASE IN THE MONEY SUPPLY TO MEET GOVERNMENT'S FINANCING NEEDS CAN HARDLY BE SUSTAINED WITHOUT UNDUE PRESSURE ON PRICES AND ON THE BALANCE OF PAYMENTS. THE CENTRAL BANK HOPES THAT EXISTING IMPORT AND CREDIT CONTROL MEASURES WILL BE SUFFICIENT TO MAINTAIN IMPORT LEVELS, AND THAT THE IMPROVED EARNINGS FROM TOURISM WILL KEEP FOREIGN EXCHANGE RESERVES AT ADEQUATE LEVELS. THE CENTRAL BANK IS CONCERNED OVER DEMANDS FOR INCREASES IN WAGES AND INCOMES, WHICH MIGHT EXACERBATE THE ECONOMIC PROBLEMS FACING THE COUNTRY. END UNCLASSIFIED

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8. MR. COX SAID CATEGORICALLY THAT CONTRARY TO SOME CONFUSION THAT HAS ARISEN IN RECENT AND EARLIER PRESS REPORTS AND ELSEWHERE, RETURNS ARE NOW COMPLETE ENOUGH FOR THE DEFICIT IN THE BARBADIAN BALANCE OF PAYMENTS TO BE PLACED QUITE ACCURATELY AT US\$10.2 MILLION IN CALENDAR YEAR 1977. (THE REFTEL REPORTED \$10.0 MILLION). THIS SHORTFALL BETWEEN BOP

RECEIPTS AND PAYMENTS WAS MORE THAN COVERED BY AN INCREMENT  
OF \$7.5 MILLION FROM INTERNATIONAL MONETARY FUND FACILITIES,  
PLUS ENTIRE UTILIZATION OF A \$10.0 MILLION LINE OF CREDIT  
FROM THE CENTRAL BANK OF TRINIDAD AND TOBAGO.

9. THE \$7.3 MILLION DIFFERENCE ON THE POSITIVE SIDE BETWEEN  
THE \$10.2 MILLION SHORTFALL AND THE \$17.5 MILLION RESORT  
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TO BORROWINGS WAS APPLIED TO INTERNATIONAL RESERVES. THESE  
RESERVES ARE NOW A LITTLE OVER \$15.5 MILLION.

10. THE BUDGETARY DEFICIT IN THE FINANCIAL YEAR ENDING  
MARCH 31, 1978 IS EXPECTED TO BE APPROXIMATELY \$45 MILLION.  
IN THE ENSUING YEAR, IT WILL PROBABLY BE AT LEAST \$50.0  
MILLION IN THE ABSENCE OF NEW TAXATION. END LIMITED  
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## Message Attributes

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